

CITY OF FLAGSTAFF PRIVILEGE (SALES) TAX

RETAIL SALES

This publication is for general information about the city of Flagstaff transaction privilege (sales) tax on retail sales. The city's transaction privilege tax is commonly referred to as a sales tax, however, the tax is on the privilege of doing business in Flagstaff and is not a true sales tax. For complete details refer to the Flagstaff City Code. **In case of inconsistency or omission in this publication, the language of the city code will prevail.**

YOU OWE RETAIL SALES TAX IF

You are in the business of selling items to someone who plans to use the items and not rent or resell them. (See Special Situation #1).

WHO PAYS RETAIL SALES TAX?

In Flagstaff, the seller owes the sales tax to the city. This true whether or not the seller added sales tax to the price of the item sold.

TAX RATE ON RETAIL SALES EFFECTIVE JULY 1, 2003

City of Flagstaff	1.601%
State of Arizona	5.600 %
Coconino County	<u>0.925%</u>
Total Tax Rate on Amusements	8.126%

HOW DO I PAY RETAIL SALES TAX?

If you are in the business of selling items at retail, you must get a Transaction Privilege (Sales) Tax License from the City of Flagstaff. Call (928) 779-7614 for more details.

Retail sales must be reported to the City of Flagstaff on the sales tax return.

WHERE DOES THE SALE OCCUR?

In general, the sale occurs at the location of the seller.

SPECIAL SITUATIONS

1. Sales for Resale:

When you sell an item to someone who plans to rent or resell it, you do not owe tax on that sale. But you must have clear and complete records of these sales or you will be taxed as if all of your sales were taxable. Your records must separately show figures for retail sales and

sales-for-resale. For each sale-for-resale, you must record the property sold, the buyer's name and address, the buyer's sales tax license number and a signed statement by the buyer stating that the goods will be resold in the ordinary course of business. Wholesale suppliers making recurring sales to the same customer, for resale, may accept a blanket "resale certificate." To receive a resale certificate call (928) 779-7685 ext 7614.

2. Services:

If you operate a service business, income from that business is generally exempt from retail sales tax. However, this is true only if sales of tangible items are an incidental part of your business. If you regularly make sales of tangible items to your customers and/or maintain an inventory of tangible items available for sale to customers, you are engaged in retail business and are liable for tax on those sales. Examples of service businesses include doctors, attorneys and engineers.

3. Casual Sales:

If you occasionally sell an item, but you are not really in the business of selling those items, you've made a "casual" sale. In most cases, casual sales are not taxable. For example, if you have an annual yard sale, you do not owe tax on those sales. If you run an accounting business and occasionally sell a client a reference book, you do not owe tax on those sales.

If, however, you regularly sell items at swap meets, craft fairs, etc., you owe sales tax and must obtain a license, even if you consider your sales to be a "hobby."

4. Factored Sales Tax:

You may choose to include sales tax in the price of an item, rather than show the tax separately. If so, you can use factoring to "back into" the tax included in your gross sales.

Example:

Gross Income	Divided by 1.08126	=	Taxable Income
(Including Tax)	(1 plus the Tax Rate)		(Excluding Tax)

For Example, if you sell an item for \$100, tax included, and the total tax rate (State, County, City) is 8.126%, your tax calculation is:

$$\begin{aligned}\text{Price including sales tax} &= \$100 \text{ divided by } 1.08126 = \$92.48 \\ \$100 - \$92.48 &= \$7.52 \text{ taxes collected}\end{aligned}$$

If you choose to separately bill and collect the sales tax, you must remit the total amount collected in some months, the tax collected may exceed the actual tax liability. Any excess tax that is collected must be remitted to the State, County, and City.

5. Trade-ins:

If you take a trade-in for partial payment on an item, you owe sales tax on the difference between the original selling price and the trade-in amount.

6. Installation Labor Charges:
When you charge for installation labor on items not becoming permanently attached to real property, you do not have to pay tax on the labor charges if you clearly show charges for labor separately on customer invoices and in your records. Otherwise, you will owe tax on all charges where labor and parts are combined.
7. Bad Debts:
A deduction for a bad debt generally applies only to accrual basis reporting. Income must have been reported in an earlier period and it must have been reported as taxable.
9. Freight:
Freight-in from the manufacturer or wholesaler to the retailer is considered a cost of doing business and therefore, can not be deducted. Freight charged by the retailer to deliver goods to the customer (freight-out) can be deducted if the charge is separately listed on the customer invoice.
10. Common Exemptions:
- a. Items sold for resale.
 - b. Items sold through a casual sale.
 - c. Food sold by qualified retailers for home consumption. "Food" includes any item which you can buy with either food stamps or food instruments issued under the Child Nutrition Act. Exempt food also includes ice and dry ice, but does not include hot prepared food or sandwiches or drinks served in an open container, sandwiches or drinks served in an open container.
 - d. Food sold to restaurants when that food is later provided free by the restaurant to its employees while they're on the job.
 - e. Food, condiments and related items sold to certain private and parochial schools for grades twelve and under, licensed day care and certified group care facilities, and facilities that provide regular care for persons who are unable to care for themselves, and certain nonprofit organizations that provide food for no charge or a nominal fee.
 - f. Warranty and service contracts.
 - g. Items sold to qualifying health care organizations, hospitals, and community health center.
 - h. Medically prescribed drugs, eyeglasses, contact lenses, hearing aids, hospital beds, wheelchairs, corrective hearing aids, hospital beds, wheelchairs, corrective shoes, crutches, braces for neck, arm, leg or back, and prosthetic appliances.
 - i. Insulin and insulin syringes and certain hearing aids.
 - j. Items sold to nonresidents for use outside Arizona when the vendor ships or delivers the items outside of Arizona.
 - k. Arizona lottery tickets.
 - l. Stocks and bonds.
 - m. Sales of certain new agricultural equipment.
 - n. Sales of certain machinery, equipment and related items used in manufacturing, processing, job printing, mining, by telephone and telegraph companies, for electric power production and transmission, pipeline, airlines, railroads, and by oil and gas

industries. This includes repair and replacement parts. Sales to contractors of material to be incorporated into a building in fulfillment.

Sales to U.S. Governments:

Federal, state, city, and county governments, including public school districts, are not exempt from city tax.

Sales to Native Americans and Tribal Councils:

For the sale to be exempt, solicitation and placement of the order must occur on the reservation; and delivery is made to the reservation, and payment must originate from the reservation.

FOR INFORMATION CALL:

(928) 774-7685 ext 7614

(928) 779-7656 facsimile

OR WRITE:

City of Flagstaff

Sales Tax Division

211 W Aspen

Flagstaff, AZ 86001

RETAIL BUSINESSES LOCATED IN\OUTSIDE THE CITY LIMITS

LOCATION IN THE CITY;

If your business is located in the city, you would collect and remit the city tax (1.601%) to Flagstaff, regardless of the location of the buyer, if within the state. In no instance would you be entitled to an out of city sales tax deduction.

LOCATION OUTSIDE THE CITY:

If your business is located in the county, the city tax imposed by the city where the buyer is located must be collected. If the county in which the city is located charges a tax, then that tax must also be collected from the buyer and remitted with the state tax.

If your business is located in the county, and transfer of title and possession occur at your business, then the sale is exempt from city tax. However, if you mail or hand-deliver the item to a customer, who resides within the city limits of Flagstaff, you must charge the city tax and remit it to Flagstaff.

Currently, there are twelve cities in Arizona, which collect their own tax. This means that businesses must remit the city tax directly to the city, and remit only the state/count tax to the Arizona Department of Revenue. If your business is in the county and the buyer is located in one of these cities, then you are required to charge that city's tax rate, and remit the tax directly to that city. In order to do this, you would have to obtain a sales tax license from the city in which the buyer is located.

The Arizona Department of Revenue (ADOR) collects the taxes for all other cities (which are referred to as "program cities"). If your business is in the county and the buyer is located in a program city, then you would charge that city's tax rate, and remit the tax to ADOR with the state/county tax. You would obtain a sales tax license for each city from ADOR. If you had sales in a city not printed on the state return, you list the city name, the applicable code for the city where the sale occurred, and the rate. Enter the gross amount, deductions, taxable income, and tax due on each line.